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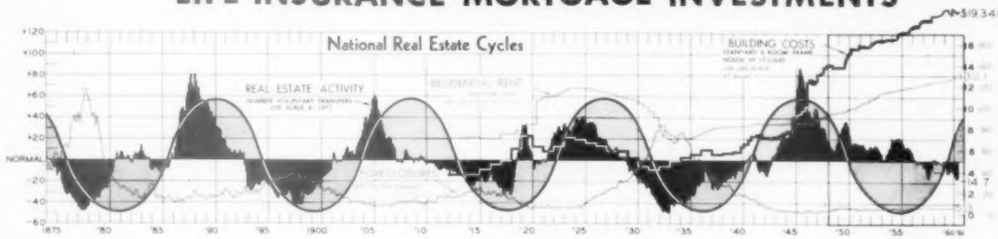
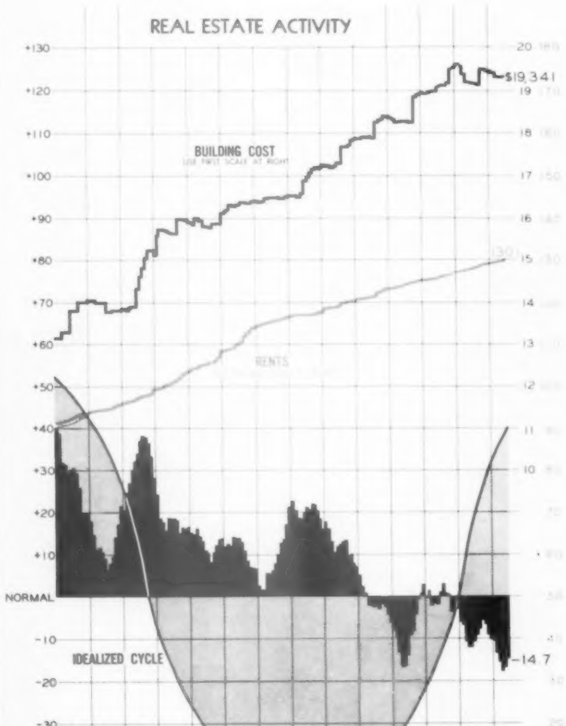
REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

LIFE INSURANCE MORTGAGE INVESTMENTS





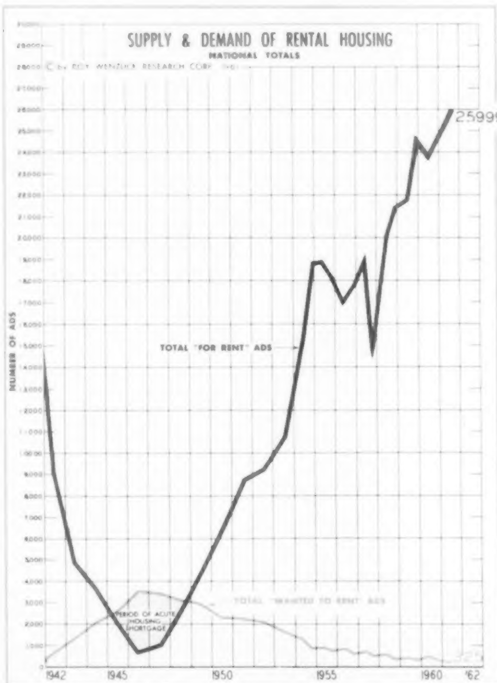
HIGHER interest rates have made mortgages profitable investments for life insurance companies. Our study of the sixty largest companies shows that the earnings on their mortgage portfolios, commercial and residential, have increased from a low of 3.7 percent in 1950 to their current rate of 4.7 percent. This is considerably higher than the average return life insurance companies get on all assets put together, according to the Institute of Life Insurance. They calculate the average return to all assets before taxes at about 4.1 percent in 1960. This return has increased from 3.1 percent in 1950 largely because of the increase in mortgage investments from 24.3 percent of total assets in 1950 to their current level of 34.6 percent of total assets, and because of the increase in their

investments in corporate bonds and stocks. Low interest return Government bonds have been reduced in dollar volume and proportionately since the end of World War II. According to our chart and tables on pages 400 and 401, Government bond holdings have been reduced from a total of $19.5 billion for the 60 largest companies to only $5.9 billion, a decrease from almost 50 percent of assets to only 5 percent.

Although interest rates on mortgages recorded in 11 major cities, as reported on page 404, have declined to 6.07 percent, we expect that mortgage interest rates, as other interest rates, will remain relatively high for several years. This we think will be true in spite of the following facts.

1. Real estate activity is low. The number of voluntary transfers per 10,000 families per month was 70.8 in June. The rate of real estate sales has shown an improvement in the last few months. In June the rate was 14.7 percent below the long-term normal trend. In May it was 16.7 percent below, one of the lowest rates in the postwar period.

2. Coupled with this low rate of real estate activity has been an increasing vacancy rate, shown by both the increased number of "For rent" ads in classified sections of newspapers (see chart below), and the rising rate of rental units vacant and available for rent -- 8.1 percent during the second quarter of 1961 (see chart on opposite page). During this second quarter even the percent of home-owner units vacant and available for sale rose to 1.4 percent from 1.2 percent during the first quarter of 1961. This is the highest either of the vacancy rates has been since this series was first published by the Census in 1956.



3. With the slower rate of sales, longer period of vacancy between sales, and lower demand for new housing, the rate of mortgage activity has slowed down. It is now only 63.4 mortgages recorded per 10,000 families per month in the major cities of the United States. A reduced demand for mortgage money facing a stable or even increasing amount of savings flowing into the market should cause interest rates to decline. It has,

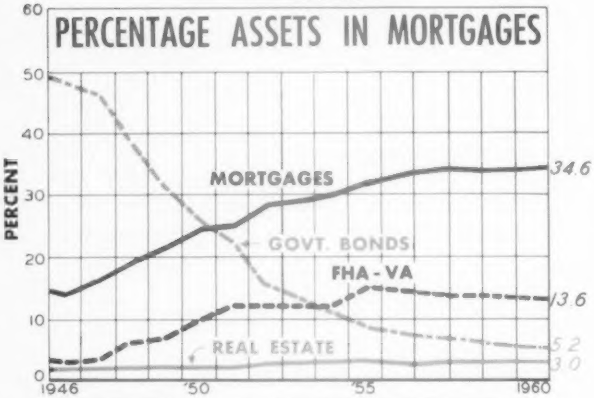
but you will notice that the average rate is still on the high side of 6 percent, in spite of the FHA-insured limit at 5-1/4 percent.

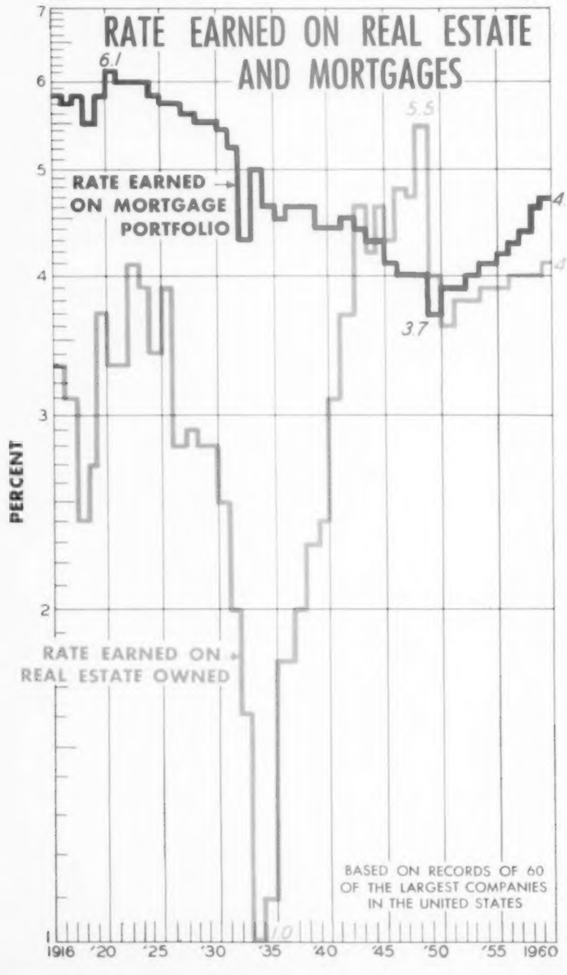
4. Finally, foreclosures have increased sharply. What could be more discouraging to mortgage investment than the chart on page 402? This chart shows that foreclosures increased 50 percent from the first quarter of 1960 to the first quarter of 1961. The number of foreclosures, however, is still 10 percent less than it was during the first quarter of 1940. The rate has increased from 2.34 per 1,000 nonfarm mortgaged homes in 1959 to 2.65 in 1960. If this upward trend is continued throughout 1961, total nonfarm foreclosures will be 75,000 to 84,000 for the year, the highest number of foreclosures for one year since 1940. There were 51,353 last year.

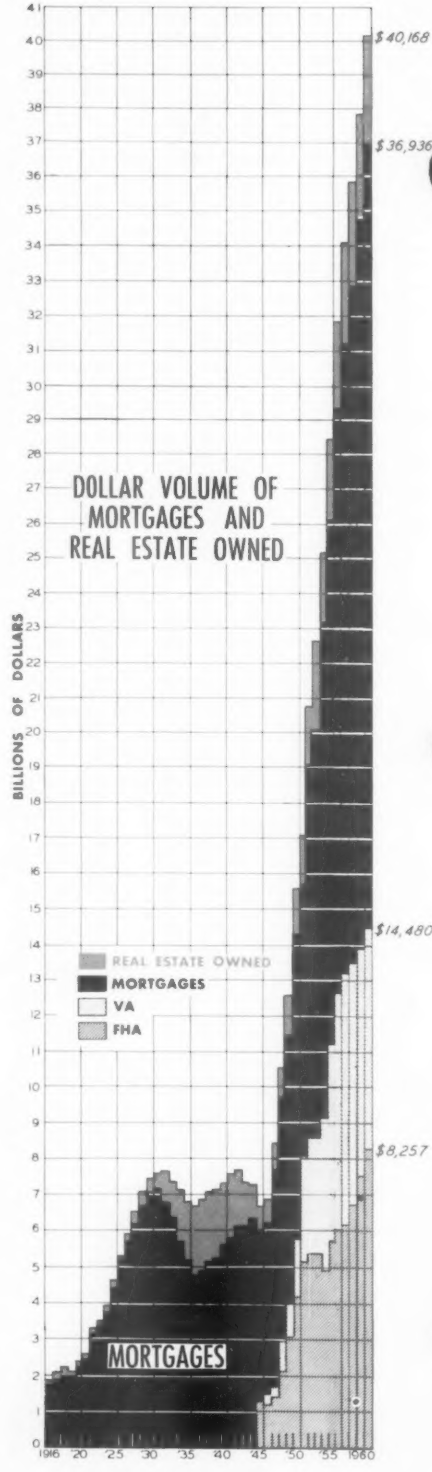
In spite of all this, interest rates in general, and on mortgages in particular, will be higher for the next few years than they have been during the decade of the 1950's. The basic reason is increased competition for all loanable funds. Demand for these funds comes not only from mortgages, but from the expansion of plant and equipment, money for which is obtained through bond and securities issues. The warming up of the cold war makes more Government expenditures necessary. These funds must come from either increased taxes or increased borrowings. Either one of these is a drain on the capital market by reducing savings or by competing for some of the loanable funds. Such increased demands will insure that the yields on investments, mortgages included, will remain relatively high.

(cont. on page 402)

Life Insurance Companies As Mortgagees







LIFE COMPANIES' MORTGAGE EARNINGS

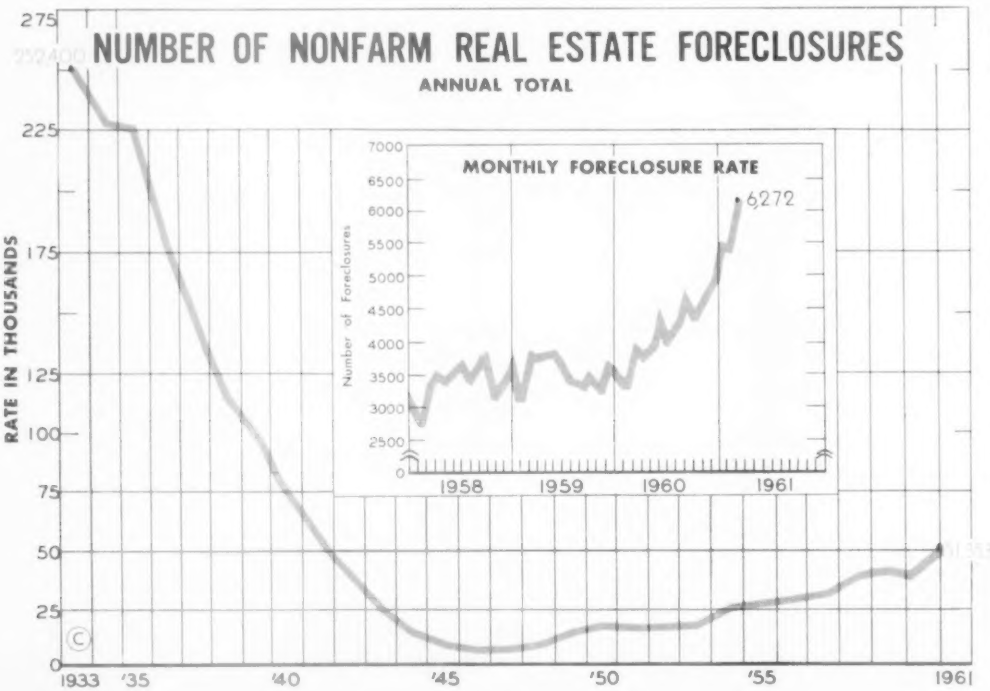
Year	REAL ESTATE OWNED* Amount	% of Assets	Rate Earned	REAL ESTATE MORTGAGES Amount	% of Assets	Rate Earned	GROSS ASSETS Amount
1912	$ 146,166,000	3.5	3.3	$ 1,379,939,000	33.3	5.5	$ 4,149,526,000
1913	121,937,000	2.8	2.9	1,499,309,000	34.2	5.5	4,383,429,000
1914	138,325,000	3.0	3.3	1,581,708,000	34.1	5.6	4,643,300,000
1915	137,311,000	2.8	3.1	1,645,885,000	33.8	5.7	4,874,996,000
1916	138,345,000	2.6	3.3	1,744,232,000	33.1	5.8	5,263,263,000
1917	150,396,000	2.7	3.1	1,863,292,000	33.3	5.7	5,595,618,000
1918	149,766,000	2.5	2.4	1,903,820,000	31.4	5.8	6,064,021,000
1919	135,409,000	2.1	2.7	1,909,279,000	30.1	5.5	6,352,990,000
1920	133,806,000	1.9	3.7	2,216,229,000	32.3	5.8	6,871,023,000
1921	144,252,000	2.0	4.3	2,420,470,000	33.5	6.1	7,229,795,000
1922	149,437,000	1.9	4.3	3,143,557,000	39.0	6.0	8,060,855,000
1923	157,922,000	1.8	4.1	3,303,878,000	37.7	6.0	8,765,533,000
1924	174,633,000	1.8	3.9	3,792,021,000	39.2	6.0	9,671,109,000
1925	189,181,000	1.8	3.4	4,359,155,000	40.7	5.8	10,705,786,000
1926	216,422,000	1.8	3.9	5,076,147,000	42.6	5.7	11,916,205,000
1927	252,857,000	1.9	2.8	5,669,244,000	42.8	5.7	13,261,266,000
1928	300,118,000	2.0	2.9	6,221,344,000	42.1	5.6	14,776,734,000
1929	344,446,000	2.1	2.8	6,752,645,000	41.7	5.5	16,205,703,000
1930	396,379,000	2.3	2.8	7,024,636,000	40.1	5.5	17,502,658,000
1931	522,291,000	2.8	2.5	7,125,832,000	38.1	5.4	18,720,503,000
1932	757,433,000	3.9	2.0	6,877,882,000	35.5	5.2	19,358,913,000
1933	1,120,377,000	5.7	1.6	6,350,391,000	32.2	4.3	19,747,417,000
1934	1,587,881,000	7.7	1.0	5,615,869,000	27.2	5.0	20,645,755,000
1935	1,773,813,000	8.1	1.1	5,074,726,000	23.1	4.6	21,998,046,000
1936	1,913,885,000	8.2	1.8	4,772,895,000	20.4	4.5	23,442,313,000
1937	1,951,971,000	7.9	1.8	4,856,604,000	19.6	4.6	24,838,002,000
1938	1,949,935,000	7.4	2.0	5,062,155,000	19.3	4.6	26,281,722,000
1939	1,915,011,000	6.8	2.3	5,272,315,000	18.7	4.6	28,134,150,000
1940	1,846,903,000	6.3	2.4	5,520,663,000	19.0	4.4	29,121,745,000
1941	1,660,668,000	5.4	3.1	5,890,776,000	19.3	4.4	30,513,433,000
1942	1,461,886,000	4.4	3.7	6,152,398,000	18.7	4.5	32,929,464,000
1943	1,181,140,000	3.2	4.6	6,129,855,000	16.7	4.4	36,783,584,000
1944	922,881,000	2.4	4.2	6,380,277,000	16.5	4.3	38,654,055,000
1945	717,500,000	1.7	4.6	5,952,461,000	14.3	4.3	41,728,006,000
1946	628,589,000	1.4	4.3	6,271,048,000	13.9	4.1	45,101,834,000
1947	756,902,000	1.5	4.8	7,678,416,000	15.5	4.0	49,490,072,000
1948	944,372,000	1.8	4.7	9,616,990,000	18.5	4.0	51,899,916,000
1949	1,121,878,000	2.0	5.5	11,457,589,000	20.7	4.0	55,428,963,000
1950	1,311,801,000	2.2	4.0	14,361,375,000	24.3	3.7	59,114,301,000
1951	1,471,960,000	2.3	3.6	15,604,016,000	24.7	3.9	63,234,623,000
1952	1,711,228,000	2.5	3.8	19,002,758,000	28.1	3.9	67,640,964,000
1953	1,801,267,000	2.5	3.8	20,811,296,000	28.9	4.0	72,128,202,000
1954	2,044,202,000	2.6	3.9	23,154,896,000	30.0	4.1	77,282,466,000
1955	2,259,165,000	2.7	3.9	26,172,635,000	31.8	4.1	82,399,207,000
1956	2,457,194,000	2.8	3.9	29,327,420,000	33.7	4.2	87,098,101,000
1957	2,717,298,000	3.0	4.0	31,303,645,000	34.1	4.3	91,811,741,000
1958	2,917,594,000	3.0	4.0	32,889,865,000	34.0	4.4	96,731,477,000
1959	3,151,038,000	3.1	4.0	34,732,130,000	34.3	4.6	101,271,690,000
1960	3,232,352,000	3.0	4.1	36,936,657,000	34.6	4.7	106,648,995,000

*Includes home office buildings.

Year	Government Bonds	% Assets	VA	FHA	% of Assets in FHA and VA Mortgages
1945	$19,548,581,000	46.8		$1,220,831,000	2.9
1946	20,533,663,000	45.5	$ 26,654,000	1,105,227,000	2.5
1947	18,902,492,000	38.2	201,261,000	1,364,626,000	3.2
1948	15,737,902,000	30.3	935,296,000	2,078,643,000	5.8
1949	14,288,446,000	25.8	1,012,818,000	3,003,274,000	7.2
1950	12,492,725,000	21.1	1,677,231,000	4,149,246,000	9.9
1951	10,098,467,000	16.0	2,867,850,000	4,703,058,000	12.0
1952	9,295,443,000	13.7	3,058,619,000	5,087,339,000	12.0
1953	8,850,262,000	12.3	3,233,358,000	5,390,993,000	12.0
1954	8,124,294,000	10.5	4,290,506,000	4,821,371,000	11.8
1955	7,597,493,000	9.2	5,550,554,000	5,709,514,000	13.7
1956	6,493,810,000	7.5	6,684,885,000	6,004,700,000	14.6
1957	6,078,649,000	6.6	7,055,451,000	6,131,479,000	14.4
1958	6,232,979,000	6.4	6,768,578,000	6,765,023,000	14.0
1959	5,878,234,000	5.8	6,430,980,000	7,528,141,000	13.8
1960	5,511,566,000	5.2	6,223,931,000	8,257,539,000	13.6

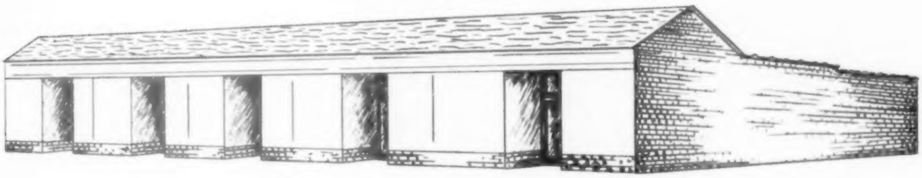
(cont. from page 399)

In spite of increased yields on mortgages and the increased interest in them shown by life insurance companies, insurance companies are still losing ground to the savings and loan associations. In 1954 life insurance companies and savings and loan associations each held about $26 billion in mortgage loans outstanding, which was about 23 percent of all loans for each. By the end of 1960, life insurance companies, even with increasing their mortgage loans to $41.8 billion, held only 20 percent of all mortgage debt outstanding, while savings and loan associations' mortgage portfolio outstanding rose to $60.1 billion, or 29 percent of the total mortgage debt outstanding. According to the latest mortgage recording letter of the Federal Home Loan Bank Board, insurance companies have originated fewer loans of $20,000 or less this year than last, 21 percent less for the first four months of 1961 compared with the first four months of 1960. Savings and loan associations, however, showed a 5 percent increase. As would be expected from our declining rate of mortgage activity, total mortgage recordings of $20,000 or less declined during this same period. These figures on mortgage recordings of less than $20,000 do not show the true life insurance story, since many of their loans are for commercial and industrial property, and savings and loan associations for the most part make home loans. It does not, however, entirely alter the picture that life insurance companies are losing their share of the mortgage loan market, in spite of the increasing amounts and proportion of mortgage loans in their portfolios.



INCREASES IN BUILDING COSTS SINCE 1939

ST. LOUIS
July 1961



COMMERCIAL BUILDING - NO BASEMENT
Content: 115,850 cubic feet
8,075 square feet
Cost 1939: $22,726
(19.6¢ per cubic foot; $2.82 per square foot)
Cost today: $76,048
(65.6¢ per cubic foot; $9.42 per square foot)
INCREASE OVER 1939 = 234.6%

18-FAMILY BRICK APARTMENT
(FRAME INTERIOR)*
Content: 168,385 cubic feet
13,260 square feet
Cost 1939: $ 60,300
(35.8¢ per cubic foot; $ 4.55 per sq. ft.)
Cost today: $194,543
($1.16 per cubic foot; $14.67 per sq. ft.)
INCREASE OVER 1939 = 222.6%

30-UNIT REINFORCED
CONCRETE APARTMENT*
Content: 303,534 cubic feet
21,372 square feet
Cost 1939: $135,000
(44.5¢ per cubic foot; $ 6.33 per sq. ft.)
Cost today: $420,674
($1.39 per cubic foot; $19.68 per sq. ft.)
INCREASE OVER 1939 = 211.6%

*Costs include full basement.

ROY WENZLICK INDICATORS OF THE REAL ESTATE MARKET

REAL ESTATE ACTIVITY

Number of Voluntary
Real Estate Transfers
per 10,000 Families

Month	1959	1960	1961
Ja	82.8	78.2	74.4
F	84.2	77.6	71.9
Mr	81.3	73.9	70.0
Ap	81.7	72.9	68.2
My	81.7	72.9	69.1
Jn	83.5	73.8	70.8
Jl	85.6	75.4	
Ag	83.6	76.8	
S	83.3	78.3	
O	80.1	77.3	
N	80.5	75.4	
D	80.4	74.5	

MORTGAGE ACTIVITY

Number of
Mortgages Recorded
per 10,000 Families

Month	1959	1960	1961
Ja	70.6	63.0	62.0
F	72.3	64.0	61.6
Mr	70.5	63.5	61.2
Ap	72.4	63.9	61.8
My	71.4	62.5	62.3
Jn	72.1	63.0	63.4
Jl	72.7	[illegible]	
Ag	71.7	65.3	
S	70.9	65.6	
O	67.2	63.1	
N	66.6	63.6	
D	65.7	62.8	

REAL ESTATE SELLING PRICE

Index: 1947-49 = 100

Month	1959	1960	1961
Ja	128.2	130.2	128.9
F	127.8	130.8	128.9
Mr	128.2	130.6	128.9
Ap	128.9	130.1	128.8
My	129.8	129.4	
Jn	129.8	129.6	
Jl	129.4	130.8	
Ag	129.3	130.8	
S	129.3	130.6	
O	130.1	129.6	
N	130.0	129.0	
D	130.2	128.9	

RESIDENTIAL RENTS

Index: 1921-38 = 100

Month	1959	1960	1961
Ja	125.4	127.3	129.4
F	125.6	127.4	129.5
Mr	125.7	127.5	129.6
Ap	125.9	127.8	129.8
My	125.9	127.8	129.9
Jn	125.1	128.0	130.1
Jl	126.2	128.3	
Ag	126.3	128.5	
S	126.5	128.7	
O	126.7	129.0	
N	126.9	129.2	
D	127.2	129.3	

COST-TWO-STORY SIX-ROOM FRAME HOUSE

(St. Louis)

Month	1959	1960	1961
Ja	$18,963	$19,607	$19,455
F	18,963	19,609	19,429
Mr	18,989	19,595	19,339
Ap	19,004	19,443	19,338
My	19,004	19,244	19,330
Jn	19,132	19,243	19,341
Jl	19,141	19,240	
Ag	19,157	19,209	
S	19,157	19,152	
O	19,204	19,514	
N	19,518	19,514	
D	19,578	19,465	

AVERAGE INTEREST RATE

Recorded Mortgages in
11 Major Cities of the United States

Month	1959	1960	1961
Ja	5.717%	6.099%	6.139%
F	5.723	6.156	6.214
Mr	5.714	6.154	6.094
Ap	5.706	6.170	6.144
My	5.690	6.189	6.127
Jn	5.681	6.209	6.070
Jl	5.691	6.124	
Ag	5.720	6.129	
S	5.787	6.141	
O	5.908	6.148	
N	5.974	6.143	
D	6.027	6.191	

*RED LINE SHOWS MONTHLY TREND OF INDICATORS FROM JANUARY 1959 TO THE PRESENT